No. 80-2023

Office-Supreme Court, U.S.
FILED
MAY 18 1981
ALEXANDER L. STEVAS,
CLERK

In the

SUPREME COURT OF THE UNITED STATES

_____ Term 1981

WILLIAM D.HURST,

Petitioner,

v.

HUGHES TOOL COMPANY,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

PETITION FOR CERTIORARI

RICHARD L. JACKSON
SHUFORD, JACKSON & ALLEN
5200 First International Bldg.
Dallas, Texas 75270
Counsel for Petitioner

TABLE OF CONTENTS

	Page
Questions Presented for Review	(i)
Opinion Below	1
Statement of Jurisdiction	1
Statement of the Case	1
Reasons for Allowance of the Writ	18
Conclusion	29
Certificate of Service	29
Appendix	

TABLE OF AUTHORITIES

E.I. DuPont deNemours and Co. v. Christopher, 431 F2d 1012 (5th Cir., 1970)	20,26
Hyde Corporation v. Huffines 314 SW2d 763 (Tex.Sup.Ct. 1958)	20
K & G Oil Tool v. G & G Fishing Tool, 314 SW2d 782 (Tex.Sup. Ct., 1955)	20
Kewanee Oil Co. v. Bicron Corp. 94 S.Ct. 1879, 416 U.S. 470, 40 L.Ed.2d 315 (1974)	21,23,25
Painton & Co. v. Bourns, Inc. 442 F2d 216 (2nd Cir., 1971)	25
United States Constitution, Art. I, ¶8, cl.8)	21
34 U.S.C. 103 ¶¶101-103	21

QUESTIONS PRESENTED FOR REVIEW

1. Should the federal court of appeals in this diversity action be compelled by this Court to apply strictly the law of trade secrets as established by the highest state court in the forum involved because of a need for consistent application of state trade secret law as a necessary and important supplement and corrollary to U.S. patent law protection?

2. Did the federal court of appeals in this diversity action properly apply the law of trade secrets as set down by the Texas Supreme Court in its review of the directed verdict granted by the trial court?

OPINION BELOW

The Opinion of the Court of Appeals in this action was rendered January 22, 1981. The Court's Opinion is reported at 634 F2d 895 (1981). A complete copy of the Opinion of the Court of Appeals delivered upon the rendering of the Judgment which is sought to be reviewed, is contained in the Appendix.

STATEMENT OF JURISDICTION

The Judgment of the Court of Appeals was entered on January 22, 1981. The denial of a timely Petition for Rehearing was entered on February 20, 1981. This Petition for Certiorari is filed within ninety (90) days of that date. Jurisdiction of this Court is invoked under 28 U.S.C.A. §1254(1).

STATEMENT OF THE CASE

In August 1969, the Petitioner, William Hurst, became interested in the concept of applying boron coatings to metal after reading of a patented General Electric

Company process ("Metalliding"). Hurst had no particular use, process or product in mind after reading of the process, so he launched a search to determine if he could find some useful application.

After substantial investigation, Hurst ultimately conceived the idea of using a boron coating on the bearings and cutting surfaces in oil tool drill bits, because of the substantially longer life that he believed could be achieved.

Hurst purchased a 7 7/8" steel tooth oil well drill bit, had it dismantled to remove all three drill bit cones and sent those cones for boronization in November of 1969. The "cones" are the rotating members of a drill bit; there are three on each bit. Hurst instructed the boronizing company as to how the boronization was to be accomplished, including instructions as to the desired depth of boronization on each of the three cones.

After receiving the treated drill cones, Hurst had the drill bits reassembled with the treated cones, and he took the drill bit to Kathol Petroleum Company ("Kathol") in Wichita, Kansas, because he wanted to actually drill a well with the treated bit to test its performance. The tests conducted and the results generated indicated to Hurst that the boronizing treatment applied to the cones had performed well.

After these test bits were pulled from the well, Hurst had them disassembled, sectioned and analyzed. From these tests, Hurst learned how much boron remained, what wear had been experienced on the unboronized areas, how deep the boronizing treatment had gone, the hardness of the treatment at and below the surface, and the depth of carburization.

After reviewing the test results, Hurst was able to determine which of the earlier boron treatments performed best by checking

the amount of wear and fracture, and that both the cutting surface boronization and the boronization of the bearings were advantageous.

Hurst purchased a second drill bit in February, 1970, had the cones removed, and sent those cones for boronization. He specified changes in his directions on the second set of test boronizing, incorporating the information learned from the first set of cones into his instructions on how to treat the second set.

Hurst had other boronizing work done during this period, including small test strips of different materials and metals, which helped him ultimately in his work on drill cones. They were done as a part of his overall boronizing experimentation so that he could learn additional information about boronization to later be applied to his treatment of drill bits and his testing and variations on them.

After the second set of boronized cones was returned, Hurst had them reassembled into a bit and drilled in another test well with Kathol. The results from these subsequent tests indicated that the boron-treated drill bit was superior in performance to non-treated, standard bits.

After the conclusion of these second tests, Hurst had the cones removed from the bit and sectioned and tested as with the earlier bit. The test results indicated that the boronization on the cutting surface of the cones was favorably affecting their cutting rate and that the bearing surfaces also were being favorable affected. The Court of Appeals found that all of Hurst's experiments were thorough and workmanlike. (Opinion, p. 2884).

After the conclusion of his testing and evaluation of the second set of drill cones, Hurst bought a third drill bit and had it disassembled and boronized. He had

determined by that time, from the earlier laboratory and field testing, the details of the treatment he wanted applied to this third set of cones.

Hurst then took his treated drill cones, traveled to Houston, Texas, and on September 16, 1970, went to the offices of Hughes Tool Company. He asked to speak with someone with the company and was introduced to a Mr. Wisler. In his initial conversation, Hurst tried to be as brief as possible. He gave Wisler a quick rundown on the treated cone, have him a few hardness figures, and asked if Hughes would be interested in testing it. The man indicated that they would. Hurst told them that he had developed a cone which could "vastly improve" the life of Hughes Tool Company drill bits. He gave the treated cone to the man, who indicated that the company would run tests on it to see if what he claimed was true.

Hurst then had numerous telephone conversations with representatives of Hughes beginning the next day after leaving Houston, and in each of these conversations they had questions for Hurst. There were questions about the density of the boron, carburization, depths of boronization, length of time required, hardness levels on the surface, and hardness levels in the substrata, and results of the testing Hurst had done on his boronized cones. They also discussed the cutting rate experiences Hurst had experienced in drilling the cones in the well with Kathol. The Hughes representative told Hurst that they were "interested" in his idea, but they "wanted more information", and would discuss at a later point the possibility of making some arrangement with him.

During one of the conversations at the Hughes Tool offices, Hurst asked them if they were using boron coatings in their

products, because he was not interested in trying to convince them to do what they were already doing. They told him that they were not.

Hurst made a second trip to Houston to meet by appointment with Hughes near the end of 1970. Hurst took all of the information and hardware he had generated from his earlier tests, including the drilling logs, the reports from Kathol, the laboratory test results and summaries and his personal notes on the matter. The Hughes representative looked at all the information provided by Hurst and told him they were "still interested", but "still testing", and asked Hurst if they could keep the treated drill cone. Hurst knew that the company had done a fair amount of testing by the time of this second personal meeting, because they were asking detailed, sophisticated questions which they would not have known to ask without some extensive testing

on their own. During this meeting, the Hughes representatives asked Hurst what he "proposed". Hurst said he was interested in a "royalty".

Hurst was not proposing to Hughes that they adopt the metalliding procedure to boronize their drill bits wear surfaces. Rather, his proposed and proven idea was to boronize the bearing surfaces and cutting surfaces of the drill bit cones by whatever method they chose to use. Boronization of cutting teeth and bearing surfaces and the proof of its effectiveness, not a method of boronization, had been the subject of all Hurst's tests, reports, evaluations and conclusions.

At the conclusion of the second meeting, Hurst explained that the information then provided was all that he had, and an agreement was made that Hughes was to call him if the company was interested in using his idea. Hurst never heard from them again.

From the time he first began his investigation of boronization through the point when he finally abandoned any hope that Hughes Tool was going to pursue his idea, Hurst spent approximately a year and a half of his time and $15,000.00 to $20,000.00 trying to develop his idea.

As of the date of Hurst's first contact, Hughes Tool Company had never manufactured any drill bits in which any of the wear surfaces had been boronized, and it had no plans to manufacture or sell drill bits with boronized wear surfaces. In fact, as of that date, Hughes had never performed a single experiment testing the effectiveness or advisability of boronizing any wear surfaces in their drill bit. Hughes had neither manufactured, sold, experimented, planned nor even considered the possibility of utilizing boron treatment on the cutting surfaces of their bits prior to Hurst's submitted trade secret and idea. In the

experience and association of the Hughes witnesses with the oil tool manufacturing industry, none were aware of any company that was involved in producing oil field equipment using such boron coatings on wear surfaces prior to September, 1970. It was not generally known within the industry by September of 1970 that boron coatings on wear surfaces would be beneficial to drilling bits.

The concept of using boron coatings in various parts of the Hughes drill bits had been superficially considered periodically by the company at least as far back as 1968. However, although various individuals and entities made submissions and proposals concerning the applicability of boron coatings, none were able to offer evidence or proof that such coatings would work on drill bit surfaces.

A research project for the investigation of various metallurgical combinations

in the bearing system of the Hughes drill bits had been initiated in March of 1970 by Stanley Scales, a staff engineer with the company (the "Scales Project"). In this project, Scales had arranged for the investigation and evaluation of more than 14 different metallurgical treatments, including boron, but there had been no emphasis on the boron application as opposed to the other prospective alternatives, and Scales expected no superior performance from such. Due to difficulties in obtaining boronized specimens, the company did not even receive the boron treated samples until September 28, 1970, and the first test conducted on them was not concluded until November 11, 1970, more than thirty days after the initial testing on the Hurst specimen was completed.

The testing on the Hurst drill cone specimen began on the day of Hurst's first visit to Hughes and continued for over four months, with the final project summary dated

January 19, 1971. The results of the testing were summarized in a twenty-three-page report. The closing memo on Hurst's file concluded, among other things,

> "The results of this testing has indicated that boronizing may be a way of improving the life and performance of milled tooth cones."

In testing and evaluating the Hurst drill cones, the company spent a total of over 1,100 man-hours and $11,000.00. They ran every conceivable test on the specimen and the reports and records generated as a result thereof all made favorable findings, and suggested additional follow-up testing. Yet, Hughes never contacted nor attempted to contact Hurst to apprise him of the results of this testing, although the possibility of doing so was discussed between the company management and its attorneys.

The results of the Hurst tests provided Hughes with encouragement to go forward with

the testing on the boronization.[1] After the conclusion of that testing they actively began investigation and experimentation with the concept of boronization of wear surfaces, culminating in their first patent disclosure on the concept of the use of boronization, September 1, 1971. The Court of Appeals found:

> "The results gleaned gave Hughes Tool encouragement to go forward with other boronizing testing, which led to several Hughes Company patents for boronizing bearing surfaces and cutting structures." (Opinion, p. 2886).

---

1. In fact, the Hughes Tool research files indicate that at times, the Hurst successes were the only thing which gave them sufficient encouragement to go on with their testing program. For example, in a Hughes Tool Inter-Office Communication dated December 10, 1971 (Pl. Ex.93), they concluded in subsequent testing:

> "Based on the results of this test alone, boronizing cones is of no value. When the results of Project 46-42-02-01 (Hurst's tests) are considered, however, boronizing still shows some promise."

The Scales Project, initiated in March of 1970, was essentially dormant, at least as it related to the evaluation or testing of any boronized specimens, until the first test was concluded in November, 1970. This test demonstrated only certain anti-galling properties of the boronization. No hardness readings were obtained from the Scales Project specimen until at least March, 1971. Yet, Scales was already citing the hardness figures observed in the Hurst specimen to the Hughes Tool in-house attorney in December, 1970, and raising the possibility of patents based thereon.[2]

Hughes Tool Company had received three separate United States patents and at least

---

2. In fact, Scales, the named inventor in the Hughes Tool boronization patents, commented on the "unexpected performance improvements" realized by the boronizing and on the possibility of patenting this "novel use of boronizing...on rock bit parts".

fourteen foreign patents as of the date of trial, involving the use of boronization in their drill bit products.

In the course of conducting research operations at Hughes, certain programs and sub-programs are established for investigation of general subject matters, and under those are created research projects. If one of these projects shows certain results or teaches certain items which the company thinks helpful in developing what they are investigating, the results and conclusions from it are incorporated into a subsequent project. Plaintiff's Exhibit 72 reflects the relationship between the findings and conclusions from various specifically identified Hughes projects, and demonstrates how the information learned from early projects is incorporated into subsequent ones, ultimately culminating in company patents. That exhibit demonstrates that the testing on the Hurst project, while not the only project

ultimately used by Hughes to develop their patents, was nevertheless an integral and important element in the development of the Hughes Tool use of boronization in its products. A copy of that exhibit is included in the Appendix.

In fact, the Court of Appeals found:

> "Regardless of its protestations to the contrary, it appears that Hughes Tool did 'use' Hurst's information in the sense that the work it did on Hurst's cone provided background information which led to at least one company patent." (Opinion, p. 2886).

Hughes Tool is now using boronization on the journal bearing pin of its bearing system in certain sizes and types of commercial drill bits. The use of these boronized surfaces gives an improved wear resistance, makes them more efficient, gives them protection against galling, causes them to perform superior to smooth, hard-metal alloys, gives them better friction-bearing properties, gives them an extended useful life, and accomplishes a manufacturing cost savings

for Hughes. The total sales of Hughes Tool projects using boron treatment of wear surfaces for the two-year period immediately preceding trial were over $27,500,000.00.

This action was initiated in the United States District Court for the Northern District of Texas, Dallas Division, on the 20th day of May, 1977. Jurisdiction of that court was grounded upon diversity of citizenship pursuant to 28 U.S.C.A. §1332.

REASONS FOR ALLOWANCE OF THE WRIT

Scientific and technological development and innovation in this country has undergone a steady and uninterrupted decline for the last decade. The economic, social and personal consequences are obvious and disturbing. Many factors have contributed, but one important element is the decline of the protection and incentive afforded the prospective inventor or innovator.

When a person sets out to solve a problem or build a better mousetrap, he

necessarily does so with his own self-interest in mind. The problem may be his own or one in which he has an individual interest, or he may simply be seeking the rewards to be realized from his successes. This "supply-side" incentive for inventors functions precisely in the same manner, for the same reasons and is equally necessary as the incentive for investment from supply-side economic policy. If reward is likely, the effort will be expended - if reward is questionable or insufficient, the effort is unlikely, or at least may be restricted.

A potential new inventor or problem-solver may expect to be faced with three possible results if a useful project or idea is produced:

(a) he may be awarded a patent - a government sanctioned exclusive right to make, use or sell his idea for a limited time period, in exchange for a full disclosure and

dedication of his knowledge to public use (35 U.S.C. ¶154);

(b) he may be entitled to keep, use or license his idea and innovation and treat such as a trade secret, unprotected by a legal, exclusive right or monopoly, but secure in its value to the inventor's business, so long as the secrecy and integrity of it has been maintained (see, for example, Hyde Corporation v. Huffines, 314 SW2d 763 (Tex.Sup. Ct., 1958); K & G Oil Tool v. G & G Fishing Tool, 314 SW2d 782 (Tex.Sup. Ct., 1958); or

(c) he may be relegated to the "law of the jungle as the standard of morality expected in our commercial transactions" (E.I. DuPont deNemours and Co. v. Christopher, 431 F2d 1012 (5th Circ.,1970) with no holds barred and his idea open

to theft, fraud, trick or any other device by which the unscrupulous would take it.

The United States Constitution provides that in the first situation, the public good is served by such exclusive patent monopolies where true invention is involved (Art. I, ¶ 8, cl. 8), but only where certain precise and exacting tests are met. (34 U.S.C. 103 ¶¶ 101-103). Obviously, there are many useful, innovative and valuable ideas which, although unpatentable, are clearly beneficial to the public and to the fields of endeavor to which they relate. A determination must then be made as to whether these will be controlled by some limited trade secret protection, or relegated to the catagory of every man for himself.

As detailed by this Court in Kewanee Oil Co. v. Bicron Corp., 94 S.Ct. 1879, 416 U.S. 470, 40 L.Ed.2d 315 (1974), the various states have by statute and decision provided for

varying forms and degrees of such trade secret protection. Although these differ on occasion in form and effect, and although the protection provided by individual states may evolve and change as the state courts feel appropriate, there is nevertheless a continuing, consistent and predictable body of trade secret law to which a prospective inventor can look in deciding whether to pay the price in time and resources in seeking new ideas and discoveries.

It is important that this be so. Patent law does not and cannot apply to and protect every useful and valuable idea conceived. Equally important, the business world cannot be relegated to a robber-baron morality. If new ideas, unpatentable, and yet highly valuable and useful, are to be encouraged, and if their creator is to be sufficiently protected and confident of their value upon creation, trade secret is an absolutely essential element in the

commercial law of this nation regarding protection of intellectual property.[3]

As this Court noted in Kewanee Oil, supra:

> "Trade secret law and patent law have co-existed in this country for over one hundred years. Each has its particular role to play and the operation of one does not take away from the need for the other. Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation. Trade secret law produces the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it."

However, the existence of a predictable, consistent application of state-monitored

---

3. "Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with discovery and exploitation of his invention. Competition is fostered and the public is not deprived of the use of valuable, if not quite patentable, invention." Kewanee Oil Co. v. Bicron Corporation, supra, at page 1888.

trade secret law is more important still than described here.

If trade secret law, as determined and set down by the states, is not conscientiously and strictly applied and followed by federal courts enforcing it, or if those courts are allowed to expand or embellish the subject in a manner at odds with the highest state court's holding on such, much more damage is done than mere inconsistency between the state and federal decisions or the harm to the individual parties there involved.

If trade secret protection becomes unpredictable and subject to change as a result of modifications and alterations affected by federal courts in diversity actions, the policy of patent protection afforded by the Constitution and the general encouragement of innovative and progressive invention upon which this country has advanced and prospered, will be undermined.

If trade secret protection is questionable, inventors will tend to submit <u>all</u> ideas

without discrimination, to the patent office, both because they have nothing to lose by so doing (and no possible protection if they do not), and because of any offensive advantage they may obtain by claiming a patent application "pending" (and this "pending" status would extend in time far beyond that currently experienced as a result of the mass of new applications), even when the inventor was confident no new patent would be granted.[4]

Further, and more important, the incentive and protection being lost (or at least so severely questioned as to make the risk

---

4. "There can be no public interest in stimulating developers of such (unpatentable) knowhow to flood an overburdened Patent Office with applications (for) what they do not consider patentable." Painton & Co. v. Bourns, Inc., 442 F2d 216 (2nd Cir. 1971), cited by this Court in Kewanee Oil Co. v. Bicron Corporation, supra, at page 1888.

of unrewarded invention unappealing) the flow of new and valuable, but unpatentable (or questionably patentable) ideas could be expected to slow dramatically.

The Court of Appeals in this action, while correctly stating that the law of trade secret to be applied was the law of the Restatement, Section 757, as recognized by the Texas Supreme Court, must have felt the Restatement too general in its condemnation of trade secret misappropriation by "improper means" (although this standard has been uniformly, consistently and broadly approved and followed by the Texas Courts). The Court of Appeals pointed out that an earlier action before it, E.I. DuPont deNemours and Co., Inc. v. Christopher, supra, had involved the improper discovery of a trade secret by "stealthy" means, and it therefore held that since the means used by Hughes Tool here did not employ "stealth", they could not be held to be improper.

Although there can be a strong factual case made for denominating Hughes Tool's actions as "stealthy", at least in part (the other part consisted of open, outright misrepresentations and fraud), such a showing is and should be unnecessary.

No decision of any Texas Court and certainly no part of the Restatement, or any interpretation or decision relating to it, has ever required that the "improper means" involve stealth. In fact, the Restatement concludes in its comments on this element:

> "A complete catalog of 'improper means' is not possible. In general, they are means which fall below the generally accepted standards of commercial morality and reasonable conduct."

Assuming that Hughes Tool's actions complained of here were not sufficiently "stealthy" to alarm the Court of Appeals' sensibilities, they were certainly within

the bounds of prohibited behavior proscribed by the Restatement.[5]

The body of trade secret law as set down and developed by the state courts is a necessary, important and essential supplement to a meaningful and workable federal patent law policy. The federal courts, when applying state trade secret law, must apply such strictly and without embellishment or expansion if the entire body of the law of ideas, state and federal, is to function effectively.

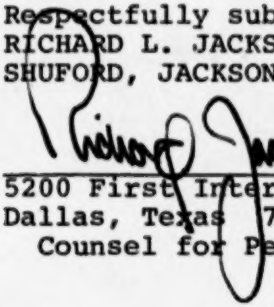
---

5. Once the Court of Appeals determined that its self-imposed requirement of "stealth" had not been met, it proceeded to find, as a matter of law (in order to support the directed verdict) that Hurst's submission did not qualify as a trade secret (in total disregard of the Restatement definition of such), and that Hughes Tool did not use Hurst's information (except "in the sense that the work it did on Hurst's [treated drill bit] cone provided background information which led to at least one [Hughes Tool] patent."). A full discussion of the Court of Appeals' misapplication of Texas and Restatement law of trade secret in this case will be reserved for submission pending this Court's action on Hurst's Petition.

CONCLUSION

For the foregoing reasons, it is respectfully requested that this Petition for Writ of Certiorari be granted.

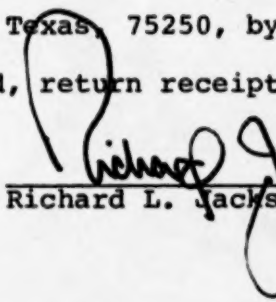
Respectfully submitted,
RICHARD L. JACKSON
SHUFORD, JACKSON & ALLEN



5200 First International Bldg.
Dallas, Texas 75270
Counsel for Petitioner

CERTIFICATE OF SERVICE

On the 15th day of May, 1981, three copies of this Petition for Certiorari were served upon Mr. Pat McGowan, attorney of record for the Respondent, at 1200 One Main Place, Dallas, Texas 75250, by first-class mail, certified, return receipt requested.



Richard L. Jackson

APPENDIX

William D. HURST,
Plaintiff-Appellant,

v.

HUGHES TOOL COMPANY,
Defendant-Appellee.

No. 78-3798.

United States Court of Appeals,
Fifth Circuit.

Jan. 22, 1981.

A diversity case presented problem in the law of trade secrets, disposed of by the United States District Court for the Northern District of Texas, at Dallas, Robert Madden Hill, J., on a motion for directed verdict in favor of the defendant. On appeal by the plaintiff, the Court of Appeals, Simpson, Circuit Judge, held that: (1) there was insufficient evidence of existence of a trade secret to go to the jury; (2) no evidence appeared on record that plaintiff took steps to protect himself or that defendant breached plaintiff's confidentiality or improperly discovered plaintiff's information; and (3) evidence that defendant did to some extent avail itself of information supplied by plaintiff failed to establish liability.

Affirmed.

1. Torts ⇐10(5)

Governing Texas law as to use of another's trade secrets is that adopted from Restatement of Torts, providing that one who discloses or uses another's trade secret, without privilege to do so, is liable to the other if he discovered the secret by improper means or if his disclosure or use constituted breach of confidence reposed in him by other in disclosing secret to him.

2. Federal Civil Procedure ⇐2126, 2608

Motions for directed verdict and judgment n. o. v. should not be decided by which side has better case, or granted only when there is complete absence of probative facts to support jury verdict, but, rather, there must be conflict in substantial evidence to create jury question.

3. Torts ⇐28

In diversity case, plaintiff's evidence to prove that his information was a trade secret deserving protection was insufficient to make case for jury on such issue.

4. Torts ⇐28

In diversity case, presenting problem in law of trade secrets, evidence including testimony that plaintiff did not even suggest to defendant that information plaintiff was giving to defendant was to be considered confidential failed to make case for jury on issue of confidential relationship.

5. Torts ⇐27

In diversity suit, evidence indicating only that defendant did to some extent avail itself of information supplied by plaintiff failed to establish liability on part of defendant for use of trade secret.

Appeal from the United States District Court for the Northern District of Texas.

Before GODBOLD, SIMPSON and THOMAS A. CLARK, Circuit Judges.

SIMPSON, Circuit Judge:

The instant diversity case presents a problem in the law of trade secrets,

Synopses, Syllabi and Key Number Classification
COPYRIGHT © 1981, by WEST PUBLISHING CO.
The Synopses, Syllabi and Key Number Classification constitute no part of the opinion of the court.

which was disposed of by the district court on a motion for directed verdict in favor of defendant. We affirm.

[1] The governing Texas law as to the use of another's trade secrets is well expressed in *E. I. duPont deNemours & Co., Inc. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970) where we stated:

> The Texas Supreme Court specifically adopted the rule found in the Restatement of Torts which provides:
>
> "One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if
>
> (a) he discovered the secret by improper means, or
>
> (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him * * *"

Restatement of Torts § 757 (1939). *Id.* at 1014. The issues in this trade secrets case follow from the well settled law; namely, was the trial court correct in directing a verdict against the plaintiff on the issues of: (1) the existence of a trade secret, (2) the breach of a confidential relationship or the improper discovery of a trade secret, (3) the use of a trade secret, and (4) the award of appropriate damages.

The Existence of a Trade Secret

To decide whether the trial court was correct in finding that there was insufficient evidence that Hurst's information was a trade secret deserving protection, two aspects of the problem must be examined: (1) what is the nature of the trade secret and (2) what are the facts surrounding the existence, discovery and use of the trade secret. First, Hurst alleges that the nature of the trade secret is, "that the use of boron coatings in wear surfaces and drill bits will make them more advantageous, accomplish certain benefits, along with the proof which he submitted to them that that concept in that trade secret is a viable, workable concept." Oral argument, statement of Mr. Jackson. *See* transcript at 110.

Second, the facts[1] surrounding the existence, discovery and use of the alleged trade secret are best approached chronologically. Hurst initially became interested in the concept of applying boron coatings to metal after reading an article in the August, 1969 issue of *Scientific American*. This magazine piece, written by Dr. Newell Cook, was on a metalliding process patented by General Electric. Transcript at 16–17. Dr. Cook, who was employed by General Electric's research and development department, was the inventor of the process discussed in the article. *Id.* at 19.

After reading this article, Hurst telephoned the author and asked him general questions concerning the process, its cost and its availability. *Id.* About this same time, Hurst, who was looking for an application for Dr. Cook's process, also had discussions with friends in the oil business, who complained of the high cost of removing and replacing worn drilling bits. Soon thereafter, Hurst conceived the idea of using a boron coating on the bearing and cutting surfaces of oil and gas well drill bits to give them longer life and to reduce fixed costs in the drilling business. *Id.* at 18–23. While doing this preliminary research, Hurst checked every source he could find and did not discover that boron had been applied to drill bits. *Id.* at 23.

1. The facts as we state them herein are extracted largely from Hurst's testimony and in all instances are stated in the light most favorable to Hurst.

After this initial research and development phase, Hurst bought a drill bit, had it dismantled and had the drill cones boronized inside and out as well as heat treated. *Id.* at 29–40. Hurst reassembled these drill bits and bought two untreated drill bits. He then supervised the digging of test drill sites, from which he generated comparison data showing that the baronized drill bits were superior to the untreated bits. *Id.* at 40–46. After the test sites were dug, Hurst had the treated bits cut apart and analyzed. *Id.* at 47–54. From the information gained, Hurst repeated and improved the process with other drill bits. *Id.* at 56. It appears from his testimony that Hurst spent between fifteen and twenty thousand dollars on this project. *Id.* at 110. It is also apparent that his experiments were thorough and workmanlike.

While Hurst was testing and prior to his initial visit to Hughes Tool Company on September 16, 1970, Hughes Tool had also been looking into the boronizing process. For some time prior to Hurst's visit, Hughes had considered boronizing some of its products and had initiated work on journal bearings. *Id.* at 292. Defendant's exhibits five and six are particularly interesting; they show that Hughes was asking as early as 1968 about metalliding and was receiving suggestions that boron would produce a hard surface on steel. Transcript at 297–304. Exhibit ten, another important exhibit, is a memo between personnel at Hughes indicating interest in having samples sent out to be boronized. Exhibit twenty is a report written by an employee of Hughes which referred to boronizing and said:

> I believe that metallided surfaces can be used for bearing, hard surfacing and cutting structure applications. The properties of a metallided surface such as high hardness, fatigue strength, and a low coefficient of friction could possibly improve our products. Metalliding might also provide these properties more cheaply than our present designs do.

Id. at 307–08.

[2, 3] The evidence summarized in the paragraphs above was found on directed verdict not to show the existence of a trade secret. The proper test for a directed verdict, which we think the trial court correctly applied, was stated in *Boeing v. Shipman*, 411 F.2d 365, 374–75 (5th Cir. 1969) (en banc):

> A mere scintilla of evidence is insufficient to present a question for the jury. The motions for directed verdict and judgment n. o. v. should not be decided by which side has the better of the case, nor should they be granted only when there is a complete absence of probative facts to support a jury verdict. There must be a conflict in substantial evidence to create a jury question.

Considering this evidence and the record as a whole we affirm the trial court and find that there is no substantial conflict in the evidence sufficient to require sending this case to the jury on the question of the existence of a trade secret.

The Breach of a Confidential Relationship or the Improper Discovery of a Trade Secret

[4] Secondly, we find that there was not a breach of a confidential relationship by Hughes Tool nor was there an improper discovery of the Hurst information. On September 16, 1970, without an appointment, Hurst arrived at Hughes Tool Company with one of his cones and told the receptionist that he would like someone to look at it. Transcript at 92.

From Hughes Tool Company records, it was established that Hurst talked with Mr. Wisler. *Id.* at 93. Hurst stated concerning his ten-minute conversation with Wisler:

> I was brief as possible. I tried to give him a quick rundown on the cone, I told him it was–that it had a layer of boron on it. Gave him a few figures, hardness figures and such, asked if he'd be interested in testing it. He indicated he would.

Id. at 94. Neither during this meeting, nor in subsequent meetings so far as revealed by the record, did Hurst even suggest that the information he was giving to Hughes was to be considered confidential. *Id.*

Breach of a confidential relationship is different from an improper discovery of a trade secret. The *Christopher* case quoted at the beginning of this opinion is a clear example of the discovery of a trade secret by improper means. In *Christopher*, duPont was building a new plant and before it could get the roof over its highly secret new process for producing methanol, the Christophers took aerial photographs of the new construction. In *Christopher*, there was no confidential relationship; however, there was a discovery of a trade secret by stealthy and improper means. The *Christopher* court stated that trade secret protection was not limited to a breach of a confidential relationship when the facts of the case raise the issue of some other wrongful conduct on the part of one discovering the trade secrets of another. *E. I. duPont deNemours & Co. v. Christopher*, *supra*, 431 F.2d at 1015.

Although neither case shows breach of a confidential relationship, the instant case differs from *Christopher*. After his initial meeting with Wisler, Hurst had several telephone conversations with representatives of Hughes Tool in which they asked numerous questions; some of which concerned boron densities, carburization techniques, boronization depths, hardness levels and other testing results. *Id.* at 102. In addition, Hurst, this time with an advance appointment, made a second trip to Houston to Hughes Tool. For his second visit, Hurst took all of his test results and notes with him. *Id.* at 104–05. Although Hughes Tool employees asked him more questions and asked to keep his cone, they refused to accept any of Hurst's test results and notes. *Id.* at 108. During this second meeting, Hurst did tell Hughes that he proposed, "some sort of sharing of royalty of some sort." *Id.* at 107. After this second trip to Houston, Hurst never heard from Hughes Tool again. The Hurst situation differs from *Christopher* in that Hughes Tool did not use stealth or improper means of discovery to get information from Hurst.

The Use of the Trade Secret

[5] After receiving Hurst's cone, it was sent to the Product Metallurgy Group at Hughes for testing. Transcript at 187. Prior to the testing of Hurst's cone, Hughes Tool had never done any actual testing of boronized cutting structures. *Id.* at 192. Therefore, six tests were ordered for the cone, among which were the boring mill test for wear resistance and a microscopic examination for structural properties of the treatment itself, a knoop hardness test and a test for carburization. *Id.* at 191–203. Upon completion of the testing, Mr. Prince, an employee of Hughes Tool, wrote a "closure" or closing memorandum in which it was stated:

> "The results of this testing has indicated that boronizing may be a way of

> improving the life and performance of the milled tooth cones. Further testing and evaluation will be necessary to determine how the cracking in the case will affect the performance of the cone and how the extremely hard surface will hold up under actual drilling conditions where all information obtained to this date indicates a cone with a 'soft skin' performs the best. These and other questions will have to be answered by other tests."

Id. at 236. The entire body of work done on Hurst's cone was classified as a sub-program by Hughes Tool. *Id.* at 239. According to Clyde Dill, the Director of Research for Hughes Tool Company, this sub-program was one of the bases for further testing. *Id.* at 242. The results gleaned gave Hughes Tool encouragement to go forward with other boronizing testing, which led to several Hughes Company patents for boronizing bearing surfaces and cutting structures. *Id.* at 253–54, 357–366.

In its brief, Hughes Tool asserts that it did not "use" Hurst's idea. Hughes points out that its patents do not prevent Hurst from boriding cones in the same manner as he has done in the past, i. e. hard facing and then boronizing. Brief of Appellees at 42, Transcript at 507. Furthermore, Hughes claims Hurst's process brought it nothing of value and states:

> it is impractical to boronize the *bearing* surface of a cutter because you have to carburize, boronize, harden and temper the cutter; if you do that, the bearing surface will be tapered out of round. Hughes would then have to grind it and boronize the surface so hard that only diamond grinding could be used, and that would remove the boronized case.

Brief of Appellee at 42–43. Nevertheless, Mr. Felsman, testifying for Hughes stated:

> The other patent relating to cones that was retained by Mr. Scales and Mr. Dill teach a substitution of his boronized treatment for the hard facing on the cones. The cone Mr. Hurst brought was a standard OWD Hughes cone and it had a lot of hard metal put on the teeth with a welding technique and real hard particles in the center, tungsten carbide, and then the boronizing treatment was applied over those things.
>
> The idea that Mr. Scales subsequently had was that possibly if you did the boronizing technique correctly you could do without all this hard facing requirement on those cones and so we obtained a patent for him on the idea of substituting this boronizing treatment for the hard facing treatment.

Transcript at 507.

Hughes Tool is presently boronizing journal bearing pins in certain models of its drill bits. Transcript at 262. The company does not now boronize cutting structures, although from the testimony concerning its patents, nothing prevents it from doing so.

Despite the excellent efforts of counsel for Hurst, the ultimate use of Hurst's information in this technical case is hard to pin-point. Regardless of its protestations to the contrary, it appears that Hughes Tool did "use" Hurst's information in the sense that the work it did on Hurst's cone provided background information which led to at least one company patent. Nevertheless, the cone and the information supplied by Hurst clearly were not the sole or even the primary source of data used in making the decision to boronize journal bearing pins or

indeed to boronize or not to boronize any other structure. In sum, Hurst's information, while of some benefit provided only negative, "what not to do", input to Hughes.

Thus, we reach three conclusions concerning the complex factual situation before the district court. First, we affirm the finding of the district court that there was insufficient evidence of the existence of a trade secret to go to the jury. Second, we find no record evidence that Hurst took steps to protect himself, or that Hughes breached Hurst's confidentiality or that Hughes improperly discovered Hurst's information. Third, we find that the evidence that Hughes did to some extent avail itself of the information supplied by Hurst is of no benefit to Hurst in establishing liability.

Since liability was not established, such damage as Hurst suffered may not be recompensed. We need not explore the question of the award of damages.

AFFIRMED.

IN THE UNITED STATES COURT OF APPEALS

FOR THE FIFTH CIRCUIT

No. 78-3798

WILLIAM D. HURST,

Plaintiff-Appellant

versus

HUGHES TOOL COMPANY

Defendant-Appellee

Appeal from the United States District Court
For the Northern District of Texas

ON PETITION FOR REHEARING

Before GODBOLD, SIMPSON and THOMAS A. CLARK, Circuit Judges.

PER CURIAM:

IT IS ORDERED that the petition for rehearing filed by appellant in the above entitled cause is hereby DENIED.

ENTERED FOR THE COURT:

/s/
UNITED STATES CIRCUIT JUDGE